USA FINANCIAL
TRENDING REPORT

Second Quarter – 2017 | *Quarterly Commentary from The Formulaic Trending Money Manager*

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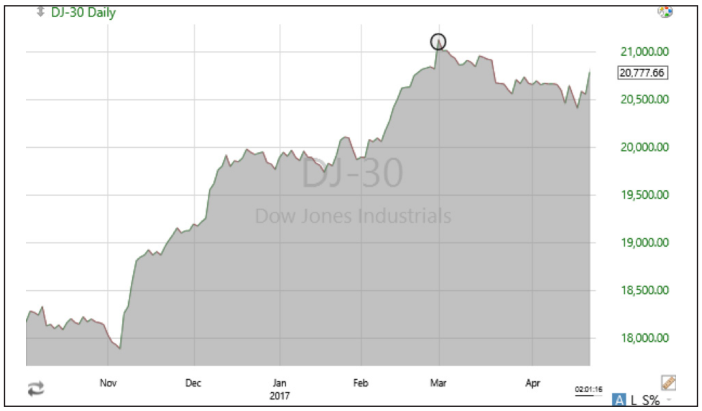
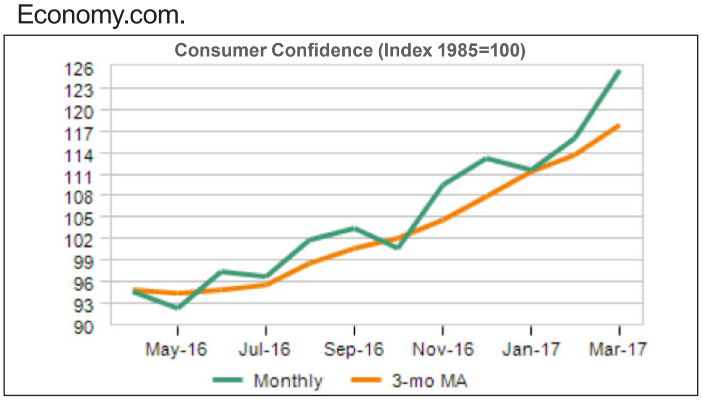
Interesting Economic Happenings in the 1st Quarter of 2017

1. Dow Jones Industrial Average surpassed 20,000 for the first time in history, closing over 21,000 in early March 2017.



2. Federal Reserve opted to increase the federal funds rate for just the third time in a decade.
3. Department of Labor (DOL) delays the Fiduciary Rule's first applicability date from April 10, 2017, to June 9, 2017 (see article on page 3). However, please keep in mind that Portformulas, by law, already operates as a fiduciary working in your best interest.
4. Consumer Confidence, according to the United States Conference Board Consumer Confidence, hits its highest since December 2000, as reported by Moody's Analytics and Economy.com.



Retirement Income Planning: When Last Becomes First

A few decades ago, generating retirement income was far less worrisome as retirees generally relied upon their sources of retirement income being created in the following order:

- FIRST – Pensions
- SECOND – Social Security
- THIRD – Personal savings

There was much less emphasis needed on one's personal accumulation of wealth and savings – it was viewed as a supplemental income source. Regardless of the degree to which an employee had saved toward their own retirement, most could count on their company pension and Social Security stepping up to fill the first two primary roles of retirement income for them.

Today, that order has entirely reversed. The make-up of the retirement income equation today is reliant upon the new order of:

- FIRST – Personal savings
- SECOND – Social Security
- THIRD – Pensions

Therefore, if an employee is lackadaisical in their diligence toward saving, they are putting the number one source of retirement income in jeopardy. Let's not forget that the original intent of the Social Security program was simply to act as a supplemental income source. It also acted as a safety net for the uncertainties that threatened the economic security of our nation's citizens, including unemployment, illness, disability, death and old age.

This reversal of order is a game-changer. And this is why it is so very important that you always Plan First, Invest Second.® It is vitally important that you consider the distinction between "accumulation planning" and "income distribution planning." The risks that you will face in retirement (the income distribution phase of your life) are far different than those facing you during your wealth accumulation years.

Simply put, the key to accumulation planning is understanding one's risk tolerance and marrying that together with proper risk management strategies within the design and selection of your portfolio (something that USA Financial Portformulas concentrates mightily on).

Income distribution planning is an entirely different (and often a more difficult) beast. This is why you need a competent advisor who can help you navigate the puzzle of qualified distributions, taxation, market volatility, longevity, interest rates and healthcare planning in order to increase your odds for success in devising an income plan that will last as long (or longer) than you do. There is no doubt that the complexity of this type of planning is partially responsible for why the DOL has put retirement accounts and retirement advice at the forefront of significant changes to the rules to which financial professionals must adhere.

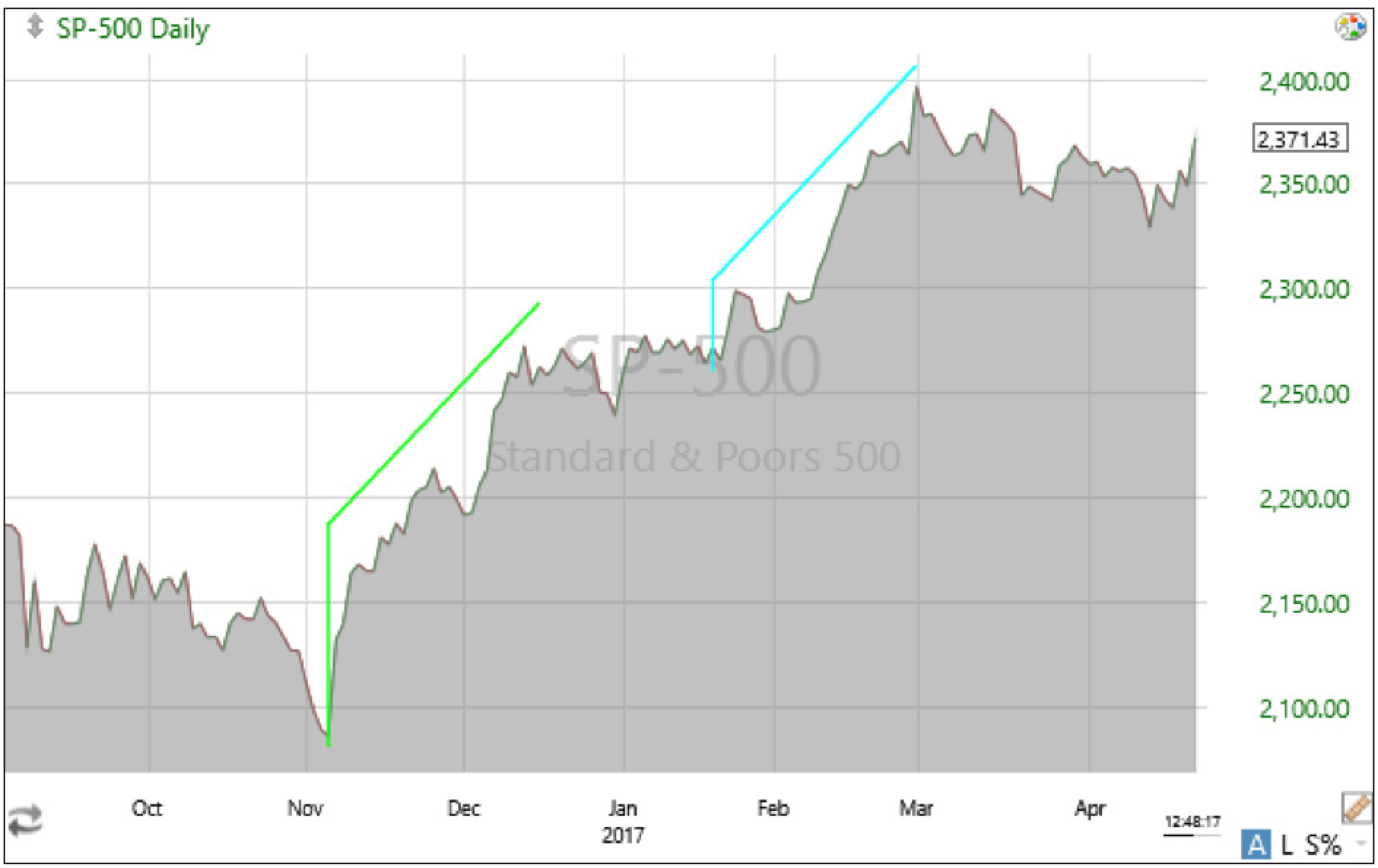
The Trump Effect: Just Another Reason Portformulas Always Adheres to Formulaic Trending

If you've been following the cause & effect relationship between President Trump and the stock market, then you know that it has defied most every prediction.

Leading up to the November election, the market generally assumed that Hillary Clinton was to become our next president. Therefore, the markets digested the theoretical impact of a Clinton presidency, until, unexpectedly, Donald Trump was elected. If you recall, the futures market plummeted after hours, the evening of the election, as the world was shocked to learn that Trump was going to win.

Once the market "re-digested" the idea of a Trump presidency, it went on a rally hitting new highs through mid-December 2016. Unfortunately, those who trade emotionally, rather than formulaically, may have missed this rally (note the **GREEN** line on the chart).

Then as things simmered down, the market essentially flat-lined until President Trump's inauguration on January 20, 2017. Then the market took off again with another rally to early March 2017. Again, unfortunately for many who may trade emotionally, rather than formulaically, they may have missed this rally as well (note the **BLUE** line on the chart).



DOL Fiduciary Rule is Delayed until June 9, 2017

Since I've written about this before, I will keep this latest update brief.

In summary, on April 7, 2017, the DOL published in the Federal Registry its delay of its Fiduciary Rule, a rule impacting how financial professionals must act while making recommendations to retirement investors. In general terms, this delay results in three primary considerations.

1. The new definition of "fiduciary" is effective June 9, 2017 (meaning any financial professional providing advice to retirement investors regarding their retirement assets, must act as a fiduciary).
2. In addition, the Impartial Conduct Standard is effective June 9, 2017 (this means that Financial Institutions and their advisors/representatives must act with care, skill, prudence, and diligence such that is in retirement investors' best interests, avoiding misleading statements, and charging/receiving no more than reasonable compensation).
3. Compliance with all remaining conditions first outlined in the DOL Fiduciary Rule (such as the written disclosures, levelized compensation and representations of fiduciary compliance) are not required until January 1, 2018.

You may be wondering, "What is on the horizon between now and January 1, 2018?"

- For starters, most industry insiders believe that another delay will not be requested by the DOL prior to June 9, 2017. Given their structuring of the delay's wording, it appears that there is a degree of confidence in the new June 9, 2017, applicability date – yet ongoing analysis will no doubt continue in preparation for January 1, 2018.
- Second, it is highly unlikely that the DOL Fiduciary Rule will be entirely rescinded given the multiple court cases found in favor of the DOL rule, in addition to the overwhelming public support of the rule, as evidenced by the DOL receiving 193,000 letters during their recent comment period – 178,000 opposing the delay (meaning they were in favor of the rule as written) and only 15,000 favoring the delay (meaning they oppose the rule as it's currently written). That calculates to a 12-to-1 ratio in favor of the rule.
- Therefore, most expect revisions to the DOL rule before January 1, 2018, specifically, regarding … Any/all items that were just delayed until January 1, 2018, rather than their being applicable on June 9, 2018 … Plus, any/all remaining items that were originally scheduled for January 1, 2018.

As I've previously shared in past issues of the Trending Report, having all financial professionals required, by rule, to act in an investor's best interest seems to naturally be the right thing to do. The DOL Fiduciary Rule, however, has opposition within the financial industry from those who are not currently required to operate in your best interest as a fiduciary, as well as opposition due to the overly cumbersome governmental red tape as currently required and outlined within the rule. Therefore, I would surmise that the rule will be streamlined, accordingly, but will survive and eventually go into effect to serve the best interest of investors.

What does this all mean to the average investor? That all depends. There will likely be more disclosure and transparency regarding retirement account investments. At Portformulas, we believe in this so strongly that we publish every step in the investment process so you can always know what you own, why you own it, and what would trigger a change. As you know, when it comes to stock market investing, there are very few guarantees. We can never guarantee performance, but we can guarantee that the formulaic process will be followed.

There is no doubt that over the course of the coming months, you will begin to see and hear the word fiduciary a lot more within financial media coverage. At Portformulas, our registration and licensure requires us to operate in a fiduciary capacity – to put the interests of the investor ahead of our own. The advisors that introduce Portformulas to investors also have this same registration and licensure.

The Department of Labor rule will change the way many financial professionals operate their business. As an investor/consumer, it is important that you understand what this means to you and your accounts. Ask your financial professional(s) if they are operating in a fiduciary capacity. Ask them how this rule might impact the manner in which they deliver advice. I encourage you to become a more educated consumer on this topic. Equally as important, encourage your friends, colleagues, and relatives to engage in the same conversation with their financial professional(s). As Yogi Berra once said, "The future ain't what it used to be." This is so very true when it comes to stock market investing, income distribution planning, and retirement advice.

Portformulas Unveils the Bull-Bear Series, a new Collection of Investment Strategies

Continuing along with the theme about the future no longer being the same, I am excited to share with you our expanded offering of Portformulas investment strategies, now including the Bull-Bear Series. This new series is specifically designed to simplify the formulaic investing process even more with the goal of reaching and supporting the ever-changing demands of investors today (and tomorrow).

This collection specifically uses ETFs and mutual funds, whereas so many of our other strategies use individual stocks as the primary investment vehicle. As always, the use of these strategies will always depend upon your overall portfolio needs. This new series was developed so that Portformulas may now be used even further to round out and target specific needs within your own personal investment portfolio design.

There is not an urgent need for you to make portfolio changes as a result of these new strategies being introduced. Determining whether these new strategies make sense for your situation is a discussion for you to have with your financial professional.

Godspeed in all your endeavors,

Mike Walters, CEO

P.S. As we shared with you earlier this year, the Trending Report will be published quarterly. Discussions for these may include a look back at the quarter that just ended, and a look forward to items of interest that we're keeping an eye on in the quarter ahead. We will still publish our Trend Tracking data on a monthly basis for you to stay informed of what is happening with the trending data that we follow and rely on for the management of investor portfolios.